

EDITORIAL

Seagram becomes new global entertainment power house

The Canadian beverage and audiovisual group Seagram said it has agreed to spend \$10.6 billion on purchasing PolyGram, one of the world's leading music groups, and integrate it into its entertainment arm Universal Studios. This would include the 75% stake owned by the Dutch electronics giant Philips. The move would turn Seagram into a content power house with annual revenues of \$12 billion ranking second at world level after Walt Disney with \$19 billion and ahead of Time Warner with \$11 billion.

This would be the culmination of Seagram's strategy to become a key player in the entertainment industry, which it initiated in 1995 with the purchase of 80% of the Hollywood studio Universal from Japan's Matsushita. To finance the deal, Seagram intends to divest some assets, including part or all of its 15% stake in Time Warner as well as PolyGram's movie arm, PolyGram Filmed Entertainment (PFE).

As for Philips, the deal would reinforce its focus on its core multimedia activities, in particular consumer electronics and communications equipment. The resulting cash flow could also allow Philips to envisage major ventures in the near future.

The merger would put an end to Europe's domination of the music business. So far, three of the world's six largest music groups, which control about 75% of the world's market for pre-recorded music, were European. This included PolyGram, Germany's Bertelsmann Music Group (BMG) and Britain's Thorn-EMI, which together accounted for 40% of the world's market. The others music "majors" are America's Time Warner, Universal's music subsidiary MCA and Japan's Sony. Europe could also lose one of its leading movie group, PFE, unless it is bought back by European investors. The French pay-TV giant Canal+, for instance, has already voiced interest.

The venture would also reinforce the prominence of the North-American entertainment industry and further consolidate the global content industry. The last ventures of this magnitude date back to 1995 with three giant US media mergers: Walt Disney-Capital Cities/ABC for \$19 billion, Time Warner-Turner Broadcasting System for \$8.5 billion, and CBS-Westinghouse for \$5.4 billion.

Philips' decision to divest its content activities also raises questions as to the scope of multimedia convergence. So far,

convergence mainly seems to be taking place between network operators, while vertical integration is on the agenda in the content industry between producers and distributors. But the content industry so far tends to remain separate from the computer, electronics and network sectors. The most notable exception is the US PC software giant Microsoft, which is trying to control the entire added-value chain of multimedia, including software, the distribution platform and content.

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EUROPE

Trends: Digital TV tops the news with the Commission's decision to reject the Kirch/CLT-UFA venture. Offensive content on the Internet is also in the spotlight with the EU's Internet Action Plan. Finally, France Télécom's tariff offer for Internet access for school was considered anti-competitive by the French competition watchdog.

MARKET AND COMPANIES

The incumbent Swiss telecoms operator SwissCom has said it would take a 50% stake in United Telecom of Austria (UTA), a telecoms operator established in 1995 by Austria's nine energy utilities. The move is part of SwissCom's strategy to set up foreign telecoms ventures with energy utilities. It follows the creation of regional ventures in France with Estel and Germany with Tesion and Communications Network Services.

Britain's Independent Television Commission (ITC) has said that the rival UK digital TV broadcasters, BSkyB and British Digital Broadcasting (BDB), had agreed to make their digital TV decoders technically compatible, thus allowing

British viewers to receive any digital TV signal, whether terrestrial or by satellite, with a single set-top box.

LEGISLATION AND POLICIES

The European Commission has decided to block plans by the TV groups Kirch and CLT-UFA to take joint control of the German pay-TV channel Premiere and of BetaDigital, a Kirch-owned supplier of digital TV set-top boxes. The move was aimed at turning Premiere into a joint digital pay-TV marketing platform, also incorporating Kirch's other German digital TV assets, on the basis of BetaDigital's d-box decoder. The incumbent telecoms operator Deutsche Telekom was to provide the technical platform for the distribution of the pay-TV services over its cable-TV network. The Commission argued that Premiere would have achieved a monopoly position as a programme and marketing platform in the German digital pay-TV market. A dominant position would also have been achieved for pay-TV technical services by BetaDigital for satellites and Deutsche Telekom for cable TV networks. Deutsche Telekom would also have strengthened its already dominant position in cable TV networks.

The European Commission has decided to open infringement procedures against Austria, Belgium, France, Italy and Luxembourg because their legislation is not in conformity with the Directive on a common framework for general authorisation and individual licenses in the field of telecoms services. Furthermore, the Commission has also decided to open procedures against Belgium, France and Luxembourg for incomplete transposition of the Directive on the interconnection of telecoms networks.

Spanish telecoms authorities have awarded a third fixed-network license to Lince, a consortium led by the French incumbent telecoms operator France Télécom with a 69% stake. The other stakeholders are the Spanish holding company Editel with 30% and the Spanish cable TV operator Cableuropa with 1%. Lince will compete with the incumbent operator Telefonica and Retevision, which is 60%-owned by the Italian national telecoms operator STET and the Spanish electricity utilities Endesa and Union Fenosa.

SOCIAL, SOCIETAL AND CULTURAL

The European Union Telecoms Council has approved in principle a four-year 25 million Ecu worth Action Plan on promoting a safe use of the Internet. The Action Plan is specifically aimed at actions where financial support from the European Community is necessary and comprises four action lines: creating a safe environment; developing of filtering and rating systems; encouraging awareness actions; taking support measures.

(The Action Plan is available on-line:)

Meanwhile, a German Court in Munich has given Felix Somm, the ex-managing Director of the German arm of the proprietary on-line service Compuserve, a suspended prison sentence of two years for providing access to pornographic and violent material on the Internet. This highlights the need to fight against offensive content on the Internet while not impeding its growth, and underlines the timeliness of the EU initiative.

The French Competition Council has decided to block the tariff offer of the incumbent telecoms operator France Télécom aimed to connect French schools to the Internet at a cut-price rate. The watchdog argued that the proposed tariffs could not be matched by new entrants due to the cost of connecting to France Télécom's local network. It therefore asked France Télécom to either withdraw its tariff offer or to lower its "interconnection tariffs" in this market to allow rivals to make competitive offers.

NORTH AMERICA

Trends: Satellite systems top the news with Motorola's decision to drop Celestri and join forces with Teledesic, and the completion of the Iridium network. Also important are C&W's purchase of MCI's Internet assets, two mergers in the networking industry, Alcatel-DSC and Tellabs-Ciena, and Sprint's launch of a new network. On the legal front, the focus is on the US government's landmark legal battle against Microsoft.

INFRASTRUCTURE

The US telecoms equipment manufacturer Motorola said it has dropped its broadband satellite communications project Celestri to join forces instead with Teledesic, a similar project sponsored by Microsoft chairman Bill Gates and telecoms entrepreneur Graig McCaw. Motorola would invest \$750 million in Teledesic and become a major shareholder with a 26% stake alongside the US aircraft and aerospace giant Boeing, which owns 10% of Teledesic. Teledesic would also receive the support of Matra Marconi Space, Europe's leading satellite manufacturer, which was a partner in Celestri.

The \$9 billion worth Teledesic network, to be in operation by 2003, is to be based on 840 low-earth orbit (LEO) satellites. Motorola's involvement increases the credibility of the project. The move also reflects Motorola's concerns about the financial viability of Celestri, which was to be based on a 63-satellite system worth \$12.9 billion.

While several "Internet in the sky" projects have been launched, Teledesic's most credible competitor to date is Skybridge, a 64-LEO satellite system worth \$3.5 billion to be operational by 2002. Skybridge is led by the French telecoms equipment manufacturer Alcatel in partnership with America's Loral Space and Communications, France's Aérospatiale, as well as Japan's Toshiba, Mitsubishi and Sharp.

Iridium LLC, a global voice and data satellite communications system led by the US telecoms equipment manufacturer Motorola, said it has completed the deployment of its 66 low-earth orbit (LEO) satellite constellation. Commercial roll-out of the Iridium global wireless phone service is scheduled on 23 September 1998.

Sprint, the third-largest US long-distance operator, has unveiled the Integrated On-Demand Network (ION), a new high-capacity network that would allow business and residential customers to simultaneously conduct multiple phone calls, receive faxes and surf the Internet at high-speed through a single connection. Sprint said it has invested over \$2 billion in the network, which has been tested with businesses and consumers over the last year. An initial roll-out for large corporations would start later this year, while the service would become generally available to businesses in mid-1999 and to consumers by late 1999. ION, which would allow to cut phone calls by over 70%, is based on mix of broadband access technologies, including ATM and DSL.

Sprint said the deployment of ION is based on a partnership with three US companies: the networking giant Cisco Systems, which provides high-speed networking equipment; Bellcore, which supplies the software; and RadioShack, which will provide marketing and consumer support services through its 6,900 stores across the USA.

MARKET AND COMPANIES

The UK telecoms group, Cable and Wireless (C&W), said it has agreed to spend \$625 million on purchasing the Internet backbone and services business of MCI, the second-largest US long-distance operator. MCI's Internet hardware includes 22 domestic nodes and 15,000 interconnection ports. On the service side, MCI has over 1,300 domestic and international Internet Service Provider (ISP) customers in 76 countries. Overall, the sold assets are valued at \$100 million with a projected 1998 turnover of \$220 million. The move will thus contribute to reinforce C&W's US operations.

MCI claims that the move is aimed at clearing regulatory hurdles to its planned \$37 billion worth merger with WorldCom, the fourth-largest US long-distance operator, as the merged company would control 50% of US Internet traffic. The move would, however, not deprive WorldCom-MCI of its core Internet business.

Indeed, the sell-off doesn't concern WorldCom's Internet assets, which include the network and corporate service divisions of the US on-line services Compuserve and America OnLine (AOL) it acquired in 1997, as well as UUNet Technologies, a leading US and UK provider of corporate Internet access. Furthermore, it does not include MCI's portfolio of corporate clients, which corresponds to the fastest-growing segment of the Internet market. Nor does it include the underlying telecoms

infrastructure, which MCI uses to carry both voice and Internet traffic, as indicated by the fact that MCI would provide the "underlying telecoms transport services supporting the C&W backbone".

At the end of the day, the operation looks very similar to WorldCom's approach one year ago when it spent \$1.2 billion on buying Compuserve: it retained the Compuserve Network Services (CNS) division, which provides networking to 1,200 corporate clients, and transferred Compuserve's 2.6 million subscribers to AOL in exchange of its high-speed Internet access division, Advanced Network and Services (ANS). It also became AOL's largest network services provider for five years. In both cases, priority is given to the core network and to corporate services, because that is where the beef is.

The French telecoms equipment giant Alcatel said it has agreed to acquire the US network equipment maker DSC Communications in a stock transaction worth \$4.4 billion. Meanwhile, the US network equipment maker Tellabs said it would purchase its US counterpart Ciena in a stock swap valued at \$6.9 billion. Both moves confirm the current focus on the networking market and further amplify consolidation in the sector.

For Alcatel, the move seems aimed at minding the gap with fast-growing networking companies such as Cisco Systems, 3Com, Ascend or Bay Networks, which are emerging as key players in the rapidly expanding market for broadband communications systems. The approach is similar to that of other equipment giants such as America's Lucent Technologies, which recently agreed to spend \$1 billion on buying Yurie Systems, a US company specialised in high-capacity networks. As for Tellabs, the move would allow to extend its market reach as Ciena has a complementary line of products.

LEGISLATION AND POLICIES

The US Department of Justice (DoJ), 20 US state Attorneys General and the District of Columbia said they have charged US PC software giant Microsoft with engaging into anti-competitive and exclusionary practices aimed at maintaining its monopoly in PC operating systems (OS) and to extent this monopoly to Internet browsers. US District Judge Thomas Penfield Jackson fixed the start of the trial on 8 September 1998, thus denying Microsoft a seven-month delay to prepare for the trial. Judge Jackson also turned down the DoJ's demand for a preliminary injunction asking Microsoft to either separate its Explorer browser from its news OS Windows 98, like it did in December for Windows 95, or to also install rival Netscape's Navigator browser. This will allow Microsoft to go ahead with its plans to release Windows 98 in June.

The US Department of Justice (DoJ) said it has filed a civil antitrust suit to stop the US digital satellite broadcaster Primestar from acquiring the digital satellite broadcasting (DSB) assets of the US media giant News Corp. and the second-largest US long-distance operator MCI. The DoJ said the buy would allow TCI, Time Warner, Comcast, Cox

Enterprises and US West/MediaOne, the five US cable TV operators that control Primestar, to protect their monopolies and keep out new competitors.

ASIA AND PACIFIC

Trends: The focus in Japan is on policies with reports on three key issues: convergence, digital TV and Internet access for schools.

LEGISLATION AND POLICIES

The Japanese Ministry of Posts and Telecoms (MPT) has released a report on "Diversified info-communications development on the road to creation of the cyber society" which addresses convergence issues. The report, which was prepared by the "Group to consider convergence and of developments in telecoms and broadcasting," submits a set of proposals to address issues such as convergence between telecoms and broadcasting, infrastructure development, content promotion, venture capital, and globalisation. The report also proposes orientations to move towards the cyber society.

A report of the Japanese Ministry of Posts and Telecoms (MPT) said that terrestrial digital TV broadcasting should start in the Tokyo, Osaka and Nagoya regions by the end of 2003 instead of 2000. The delay is linked to the multi-billion Ecu investment required to switch to digital broadcasting, which acts as a deterrent for industry. The MPT recently unveiled a stimulus package aimed to help broadcasters to switch to digital TV. The report said it expects analogue broadcasting in Japan to end in 2010.

SOCIAL, SOCIETAL AND CULTURAL

A joint committee of the Japanese Ministry of Posts and Telecoms (MPT) and the Japanese Ministry of Education (MoE) has prepared a draft report that would call upon Japanese telecoms operators and Internet service providers (ISP) to reduce Internet access rates for schools. The draft report would also urge Japan's central and local governments to jointly establish a fund that could subsidise telecoms operators and ISPs to allow them to cut rates or introduce fixed daytime Internet access rates for public schools. The joint committee's final report is due shortly.

LATIN AMERICA

LEGISLATION AND POLICIES

The Brazilian government has said it will break up the country's telecoms monopoly Telebras into 12 companies. Telebras

stakeholders would get shares into each of the new operators, while Telebras would cease to exist. The 12 new groups would include a long-distance operator, three regional fixed-line operators and eight cellular operators. The spin-off would take place before the government sales its controlling stakes in the newly-formed companies to strategic partners on 29 July 1998.

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